

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE
COMMONWEALTH OF KENTUCKY

PUBLIC HEARING HAD ON THE 10th DAY OF OCTOBER, 2000, IN
COVINGTON, KENTUCKY

ADMINISTRATIVE CASE NO. 384

BEFORE THE PUBLIC SERVICE COMMISSION, MARTIN J.
HUELSMANN, CHAIRMAN, GARRY GILLIS, COMMISSIONER, AND
EDWARD HOMES, VICE-CHAIRMAN.

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1 MR. HUELSMANN: Welcome. This is a Public
2 Service Commission's formal hearing in Administrative
3 Case 384. Before we get started I want to make a
4 couple of introductions and a couple of little
5 statements.

6 First of all, to my immediate right is
7 Commissioner Gary Gillis and to my immediate left is
8 Vice Chairman Ed Holmes. We would like to keep
9 comments germane to 384. We all realize that on
10 Friday there was a severe break in a gas line in
11 Newport. That break has been worked on very, very
12 heavily by Union Light, Heating & Power. We have in
13 the audience Dave Kinman and Bob Amato from our
14 engineering department and in the event you have any
15 questions concerning that they will try to answer
16 those questions as well as the utility has told us
17 that they will be around after this hearing for
18 comments that you might have or questions you may have
19 concerning what's going on over there.

20 So with that in mind we'd appreciate it if
21 you'd keep the statements germane to what we're after.
22 And we're concerned about gas prices in the United
23 States as well as gas prices in Kentucky in
24 particular.

25 We're on a fact-finding mission. We have

1 taken and issued data requests to all the five major
2 utilities that we have in the State of Kentucky and
3 ask them for information and then we're conducting
4 these hearings around the state to try to develop
5 information concerning the rise of gas prices.

6 We want to thank the Secretary Viola Miller
7 of the Cabinet for Families, and Children and
8 Secretary James Bickford for the Natural Resources and
9 Environmental Protection Cabinet as well as Ron
10 McCloud who's the Secretary of the Public Protection
11 Cabinet of which we're under.

12 We have -- we're also doing an experiment
13 today. The person who, to my left, is speaking into
14 that thing is a person by the name of Allen McClung,
15 and he is going to take and transcribe this hearing.
16 And that transcript will be placed upon the PSC
17 website probably in a week, so that anybody can have
18 it off the website and just by dialing it up and
19 hitting print. For those of you who don't know our
20 website number it's www.PSC.state.ky.us.

21 So that's one thing we're doing. The second
22 thing is Adam Rabinowitz is the man on the digital
23 camera, and he is going to be digitally typing this
24 and it will be digitally streamed to the PSC; and once
25 again will be on our website probably in a week. So

1 if you want to look at the hearing and check anything
2 out both written as well as seeing, that's there for
3 you.

4 I want to introduce the people that will be
5 asking questions, and that's our staff to my immediate
6 left. And Ms. Mitchell, Mr. Shaw, would you introduce
7 yourself for the record?

8 MS. MITCHELL: I'm Anita Mitchell from the
9 commission's legal staff.

10 MR. HUELSMANN: And we have interveners
11 here. And the only intervener here is Ann Cheuvront
12 from the Attorney General's Office. Would you just
13 say your name as soon as the camera gets around there?

14 MS. CHEUVRONT: I'm Ann Louise Cheuvront
15 with the Office of Attorney General.

16 MR. HUELSMANN: Once again, this is October
17 10th. We're in Covington, Kentucky and our utility
18 here is Union Light, Heat and Power. And at this
19 point Mr. Gribler I think you want to make an opening
20 statement and then we'll have some comments by your
21 two people with you, then we'll go from there.

22 MR. GRIBLER: Thank you, Chairman Huelmann.
23 Vice Chairman Holmes, Commissioner Gillis, on behalf
24 of the Union Light, Heat and Power Company we're very
25 pleased to have the Commission in Northern Kentucky

1 tonight. We think this is an important case that you
2 have opened. We recognize that gas prices have risen
3 significantly. And with me this evening, Randy
4 Randolph, who's vice president of gas operations, and
5 Todd Arnold, vice president customer strategy and call
6 center services. We're hopefully prepared to answer
7 the questions that the staff and interveners may have
8 of Union Light tonight.

9 I know the Commission is well aware of this.
10 I know that the press releases have said it. For the
11 benefit of those in the audience who may not know
12 this, the gas that is purchased by the Union Light,
13 Heat and Power Company to be delivered to its
14 customers, Union Light does not make a profit on that
15 gas commodity. The consumers pay what the company
16 pays to obtain the gas.

17 You indicated that earlier in this
18 proceeding data responses had been requested from all
19 the companies. Copies of those responses filed by
20 Union Light on September 21st are available on the
21 table outside the door where people came in the room.
22 We invite anyone who is interested to pick up a copy
23 of that material and see the depth of the questions
24 and the answers that have been provided in this
25 proceeding.

1 I'd also like to simply reiterate what you
2 have said, and that is if there are people here who
3 are interested in discussing with us the events that
4 have occurred in Newport over the last six days we
5 have representatives in the room who will make
6 ourselves available once this proceeding is over this
7 evening. And we'll stay as long as anyone would like
8 to stay to talk about those matters.

9 And with that, I would like to give the
10 floor to Randy Randolph for a brief presentation to
11 the Commission.

12 MR. HUELSMANN: Let me swear you all in, and
13 we'll do it jointly and take care of it from that
14 standpoint.

15 (WINTESSES SWORN IN)

16 MR. HUELSMANN: Go ahead, Mr. Randolph.

17 MR. RANDOLPH: Thank you very much, Mr.
18 Chairman. We appreciate the opportunity to be here
19 today in this forum and series of meetings to discuss
20 the availability and reliability as well as the price
21 of natural gas to the people of the Commonwealth of
22 Kentucky.

23 Clearly, we've seen a dramatic increase in
24 the price of natural gas in the wholesale market from
25 this time last year approximately \$2.56 to this year

1 \$5.31 per MMBTU is a dramatic increase.

2 We have seen during the last several years a
3 steady increase in the demand. We've seen an
4 expansion of our economy. We've also seen an
5 increased demand for the use of natural gas in
6 electric generation.

7 Further, we have also seen on the supply
8 side, we've seen a steady erosion in our
9 deliverability of gas at the wellhead. Some estimates
10 had our domestic deliverability in the range of 57 BCF
11 per day in 1995, and some estimates have that down to
12 52 BCF a day in the year 2000. So we've seen almost a
13 5 BCF decline in our daily deliverability of natural
14 gas.

15 So we've kind of seen a merging of an
16 increase in demand with a decrease in supply and a
17 resulting increase in the price. And what I'd like to
18 do is put up a couple of visuals here. I think -- I
19 always like to put it on a graph. What we did was we
20 put the -- if everyone can see this and I'll step
21 back. We took -- it's a very busy graph and I'll pull
22 that down to a smaller scale here at least a fewer
23 years.

24 If we take the last ten years and we take
25 the pattern of demand, or excuse me, of price that

1 we've seen, we have price on the axis on our left at
2 dollars per decatherm or dollars per MMBTU, and in
3 those months, January, February through December this
4 is the NYMEX closing price at the Henry Hub.

5 We can see a pattern that generally begins
6 to flatten out over time. We have the higher prices
7 in January when demand is up and December; lower
8 demand in the summer and we get that trend. But we
9 have this oddity here and that's the red line and we
10 have a break out in about March and April we'll break
11 above \$3. That is exactly in this year where we saw
12 the huge increase. We've seen some trailing off in
13 September and then a strong increase, well above \$5,
14 in October.

15 So, again, I'll put that -- I'll draw that
16 back to the last four years and talk about that
17 decrease in the productive capability, deliverability
18 -- kind of aligned with an increase in demand. And we
19 can look at '97, '98, '99 and then 2000. And we've
20 got an anomaly coming; we have a real break out. And
21 it's some -- the very reason we have seen domestically
22 that our storage levels have been low on the supply
23 side.

24 On the market side we've continued to put
25 gas into storage to meet operational demands for the

1 winter. However, many of those that arbitrage or, if
2 you will, bet that prices will be increasing in the
3 winter versus the time they put it in the summer have
4 been hesitant to put production, if you will, in the
5 ground to sell at a higher price. I think it gives us
6 a visual there of dramatic increase.

7 One of the things that we've seen also is a
8 dramatic increase in the price of crude oil. We think
9 that's significant because in the past as we've seen
10 increases in natural gas we've had industrial
11 customers have dual fuel capability. And what they've
12 done is they've switched to alternate fuels, usually
13 residual fuel number six or distillate fuel oil number
14 two and at that point in time that freed up gas
15 supplies.

16 What we see is October of '99, we had gas at
17 \$2.56, we had fuel oil at 61½ cents a gallon, and we
18 had crude oil at \$24.46. And if you'll compare that
19 with what we saw in October this year at \$5.31 for
20 gas, 92.4 cents a gallon for fuel oil and \$37 crude,
21 it gives us an indication that the industrials there
22 don't have a cheaper or more economically viable
23 alternative to switch to, so they stay on gas, keeping
24 demand high.

25 We've updated that to include the numbers

1 for November. We're seeing a little softening in
2 crude price and we saw a little bit of softening in
3 the price of natural gas.

4 From the standpoint of reliability for our
5 customers, and this may be somewhat of a busy math --
6 a busy graph, but again, putting it in perspective,
7 what we do is we plan for a 30 year winter event and a
8 50 year daily peak. And what we have here is the
9 capacity that we utilize, and what I've given you is a
10 model of our system. And basically, we tailor that
11 decline curve -- and these are the number of days that
12 we would reach that design peak at the top and we
13 would look at -- we would have one day where we would
14 possibly meet that level of 650 million. Then we
15 would have a number of days -- let's just say our
16 winter would be comprised of that first approximately
17 100 days to 127 days and you'll see that demand
18 decline.

19 So what we've done is we've utilized a
20 combination of capacity in interstate pipelines and
21 storage and our propane peaking to ensure that our
22 customers will be served under the designed criteria.

23 MR. HUELSMANN: Thank you. Do you want to
24 eventually make us four or five copies of that so that
25 we could have copies?

1 MR. GRIBLER: Sure.

2 MR. HUELSMANN: And I think Ms. Cheuvront
3 would probably like a copy. Should we put it in the
4 record?

5 MR. GRIBLER: Sure, we'd be happy to do
6 that. If anybody in the audience would like to have a
7 copy just let me know at the conclusion.

8 MR. HOLMES: Could you leave that up? I
9 have one question on one of your slides later on.

10 MR. GRIBLER: Okay. Chairman Hueismann?

11 MR. HUELSMANN: Go ahead.

12 MR. GRIBLER: Mr. Arnold would like to make
13 also a brief opening statement.

14 MR. ARNOLD: Mr. Chairman, I appreciate the
15 opportunity to talk about how Union Light, Heat and
16 Power is going to help customers deal with the
17 increased wholesale prices of natural gas.

18 We spent time looking at how do we assist
19 our customers and how do we lessen that impact. And
20 we really do believe that our existing customer
21 programs are designed to help customers in this
22 situation. We believe we have a variety of programs
23 to help. We provide options for paying their bills.
24 We have things such as our budget billing program,
25 which we think will help because we have an annual

1 plan which is a fixed amount levelized each month. We
2 also offer what's called a quarterly plan, which is
3 more of a rolling plan; but a couple of options there
4 to help customers budget their bills.

5 We also have an adjusted due date capability
6 where we can move the due date five to ten days
7 forward to provide more flexibility in that due date,
8 matching the customer's ability to pay.

9 For those that are finding themselves
10 getting behind in paying their bills we have a very
11 flexible payment agreement programs where our customer
12 service representatives are empowered to be very
13 flexible in working with customers and working out
14 terms to try to help the customer meet those payments.

15 We also work with the local providers of
16 low-income assistance programs to help those who are
17 having the hardest time paying their bills. We have
18 programs such as the Low-Income Home Energy Assistance
19 Program. Cinergy also supports the WinterCare Program
20 where we match a dollar for every two dollars donated
21 to this plan up to a maximum of \$25,000. These are
22 programs that are administered through the Community
23 Action Commission of Northern Kentucky.

24 We also provide free home weatherization to
25 low-income customers. In fact this year, as well as

1 last year, we will weatherize somewhere in the
2 neighborhood of 300 homes.

3 We also provide all Union Light, Heat and
4 Power customers access to some other home efficiency
5 programs. We have a home energy house call program
6 that is free where we'll do a detailed in-home energy
7 audit. And we also then offer on-line via Cinergy.com
8 website the ability for customers to go in and conduct
9 their own energy audit and they receive a very
10 detailed, personalized energy usage profile.

11 When we look at these programs and the
12 flexibility of these programs to help customers as
13 they deal with the increase in the wholesale prices,
14 we believe our focus shouldn't really be on
15 necessarily designing a lot of additional programs as
16 much as making sure that ULH&P customers know that we
17 can help.

18 And so we're going to have our focus be on
19 proactively making sure customers are aware of the
20 potential impacts from these increase in prices and
21 make sure they're aware of the ways that they can help
22 themselves as well as a way that ULH&P can help them
23 manage those bills.

24 We're going to do that through comprehensive
25 communication program that's going to include some of

1 our traditional ways to communicate in terms of
2 messages on monthly bill and bill inserts. We're also
3 going to activate a special toll free number that's
4 dedicated to informing customers about these programs
5 and about how these programs can help offset the
6 impacts as well as the -- the 1-800 number will have
7 the ability for a customer to opt out and enroll in
8 these programs or opt out and talk to a customer
9 service representative more about these programs as
10 well as making sure customers know they can access the
11 website for additional programs.

12 We're going to make sure that we promote
13 this toll free number, promote our website address, as
14 I mentioned on traditional vehicles, bill messages and
15 bill inserts. We're also going to do some things in
16 terms of informational brochures that we'll distribute
17 to our field offices in Northern Kentucky as well as
18 the low-income assistance agencies. And we'll also be
19 promoting the Cinergy Can Help through some messages
20 that we'll do on bus signs for the Transit Authority
21 of Northern Kentucky buses.

22 We're committed to helping our customers.
23 And, as I mentioned, we think we have programs that do
24 that, and we're going to make sure that our customers
25 know what Cinergy can help and to what level.

1 MR. HUELSMANN: Thank you. Anything else,
2 Mr. Gribler?

3 MR. GRIBLER: No. Thank you, Mr. Chairman.

4 MR. HUELSMANN: We're going to deviate a
5 little bit from what you normally see in a courtroom.
6 Ms. Mitchell is going to be first to ask questions.
7 If you all would decide who's going to answer that and
8 start with your -- say your name and then answer the
9 question, if you would, and then we'll go to Ms.
10 Cheuvront. Ms. Mitchell?

11 MS. MITHCELL: Thank you. Good evening. In
12 item two of Union Light, Heat and Power's response to
13 the Commission's Data Request of September 12th, it
14 provides an assessment of Union Light, Heat and
15 Power's gas supplies and its ability to meet the
16 demands of its customers this winter. Is there a
17 worse case scenario under which Union Light, Heat and
18 Power might not be able to meet its customer's demand
19 for natural gas, and would such a scenario be
20 different than any other winter?

21 MR. RANDOLPH: Randy Randolph, vice
22 president of gas supply. From a standpoint of worse
23 case scenario, I don't think the upcoming winter would
24 be any different than any previous winters we've
25 experienced. We're always subject to potential

1 failures of pipelines, whether they be interstate
2 pipelines or our gas distribution systems. There's
3 always the potential also to have supply failures.
4 Again, events of force majeure the wellhead. We have
5 been known back in December of '89 we had a fairly
6 substantial freeze in the Gulf Coast which I think
7 drove temperatures down in the single digits at the
8 Gulf Coast and there was substantial freeze-offs at
9 the wellheads.

10 Absent, again, those events of force
11 majeure, I don't see this winter being any different
12 than previous winters.

13 MS. MITCHELL: Have any of the marketers or
14 suppliers with whom Union Light, Heat and Power
15 currently contracts for natural gas supplies ever
16 defaulted? Have they ever failed to deliver gas
17 supplies to your system?

18 MR. RANDOLPH: No, ma'am, they have not.

19 MS. MITCHELL: Is Union Light, Heat and
20 Power aware of any potential bottlenecks in the
21 delivery system from the wellhead to the city gate
22 that might prevent the delivery of adequate gas
23 supplies?

24 MR. RANDOLPH: We're not aware of any
25 bottlenecks on the interstate system. We contracted

1 for capacity on those systems and in storage
2 facilities that we fully expect and we have
3 contractual agreements with service providers that it
4 will be there on demand.

5 MS. MITCHELL: Has Union Light, Heat and
6 Power reviewed its curtailment procedures for the
7 coming heating season?

8 MR. RANDOLPH: Yes, we do have curtailment
9 procedures and we have reviewed those and updated
10 those procedures with our interruptible transportation
11 customers. That's our normal procedure and we update
12 all of our contact information as well as our customer
13 information.

14 MS. MITCHELL: And you believe those
15 procedures are adequate?

16 MR. RANDOLPH: Yes, ma'am, I do.

17 MS. MITCHELL: For the benefit of the
18 members of the public that are here, can you identify
19 the different components of ULH&P's wholesale gas cost
20 and explain the extent to which those components are
21 regulated?

22 MR. RANDOLPH: From the standpoint -- if I
23 understand the question, it is the components of our
24 GCA cost to our customers, and that's comprised of two
25 components. One of those is a variable component,

1 which recovers the cost that we incur for the
2 transportation capacity and storage capacity on the
3 interstate pipelines. Those rates that we pay are
4 regulated by the Federal Energy Regulatory Commission
5 and are subject to proceedings and hearings and
6 effective tariffs. The second component -- that
7 component makes up approximately 18 percent of our
8 overall rate.

9 The other piece of our rate, which is
10 approximately 82 percent is comprised of our wholesale
11 price, the price at which we purchase gas from our
12 suppliers. And that price is dominantly purchased at
13 market price.

14 There is a minor piece and probably less
15 than one percent, is also the cost of our propane
16 peaking service which, as I indicated in my low
17 duration curve there, covers those peak day events.

18 MS. MITCHELL: Thank you. With regard to
19 the natural gas that is currently under contract, how
20 does Union Light, Heat and Power determine that the
21 contract is prudent and reasonable? In other words,
22 what benchmarks or industry standards -- what industry
23 averages are relied upon?

24 MR. RANDOLPH: From the standpoint of
25 establishing our prices for the gas that we purchase,

1 we will use a variety of market indices. And those
2 may - - those are predominantly acceptable indices
3 published by the likes of *Gas Daily*, *Inside F.E.R.C.*,
4 these publications. Also prices can be established on
5 -- as to the close on the NYMEX or the average of the
6 last three days of the NYMEX. With -- our efforts
7 predominantly have been to buy gas at market driven
8 prices and those can be, again, first of the month,
9 they can be daily, they can be averages; but they are
10 more or less accepted standards within the industry.

11 MS. MITCHELL: In item four of the response
12 to the Commission's Data Request it compares customers
13 bills in January of 2000 with what those bills would
14 have been based on the rates in effect at October 1,
15 2000. Based on January's average monthly usage of 19
16 MCF this comparison shows that a residential
17 customer's bills would increase from a \$127 to \$154.
18 Is it correct that the only change in rates from
19 January 2000 to October 2000 result from increases in
20 ULH&P's wholesale gas costs?

21 MR. RANDOLPH: Yes, ma'am, I'd accept that
22 that the only increase at this point would be the
23 wholesale price of our gas.

24 MS. MITCHELL: In item five of the response
25 to the Commission's Data Request it shows that ULH&P's

1 natural gas purchases are under short-term contracts
2 -- are all under short-term contracts. Can you
3 identify and describe the factors affecting ULH&P's
4 procurement strategy that favors short-term contracts
5 over long-term contracts?

6 MR. RANDOLPH: Yes, ma'am, and I would say
7 that I would characterize our purchases as seasonal
8 purchases. And we purchase gas for the winter months
9 on a contract with suppliers and we go to the market
10 on the off-season, if you will, the off-beat months.

11 Currently in the market there is no
12 economical or operational reasons to enter into long-
13 term contracts. The market -- the wholesale market is
14 very liquid. There are -- there is a variety of
15 willing sellers available on the market. We defined
16 our supplier pool by the capacity that we contract for
17 on the interstate pipelines and our supply -- or
18 excuse me, our storage arrangement.

19 At this point in time, again, there appears
20 to be no economic advantage in entering into longer-
21 term contracts other than for seasonal gas supplies.

22 MS. MITCHELL: How does ULH&P determine the
23 volumes that it will purchase from each supplier?

24 MR. RANDOLPH: We take our forecast, again,
25 our 30 year design as well as our 50 year daily peak

1 and we determine the capacity, daily deliverability
2 that we'll need to meet that daily peak as well as
3 that seasonal demand. And we arrange for the storage
4 in the pipeline capacity and then ultimately the gas
5 supplies to meet those needs.

6 MS. MITCHELL: Does ULH&P take the maximum
7 volumes possible from the lowest cost suppliers?

8 MR. RANDOLPH: We -- ULH&P requests bids from a
9 variety of suppliers. And we ultimately enter into
10 contracts that provide us with a great degree of
11 flexibility. And in flexibility on the supply side
12 we'll say swing. And as we know, and we experienced
13 here just this week, our demand on our system
14 increased from 30 million cubic feet a day last week
15 on Monday to by Friday we were close to 200.

16 And we have to have the ability to go out
17 and bring those supplies on. So it's very difficult
18 at times to say which is the lowest cost supply.
19 There is a portfolio that meets our needs to fulfill
20 daily swings and daily demands and also seasonal. And
21 there are embedded options in those contracts that
22 give us rights to call on that swing maybe a certain
23 number of times.

24 And, again, we try to optimize the
25 utilization of that portfolio to provide the lowest

1 cost, the most reasonable cost price of gas to our
2 customers.

3 MS. MITCHELL: Will you provide an overview
4 of ULH&P's disconnection policies and the type of
5 modified payment or partial payment plans available to
6 the customers that have difficulties paying their
7 bills? I know you discussed a few of them earlier,
8 but can you go ahead and give us your disconnection
9 policies and programs again?

10 MR. ARNOLD: Yeah, sure. Todd Arnold, vice
11 president of customer strategy and call center
12 services. The major part of our program is working
13 with customers ahead of time before they get the
14 disconnection. As I mentioned, Low-income Home Energy
15 Assistance Program, WinterCare programs are available.

16 Another key piece is really our Cinergy or
17 ULH&P flexible agreement program where our customer
18 service reps are empowered to work with the customer.
19 And within a 12-month period a customer can have up to
20 a minimum of two agreements. And in certain
21 circumstances have more than two agreements.

22 Within those agreements, we're willing to
23 work on a payment plan normally extended over a 12
24 month period, but they're also empowered in special
25 circumstances to go as far as a 48 month period. And

1 it's primarily trying to balance the needs of the
2 customer and the needs of the company and find a plan
3 that helps the customer be successful and find a way
4 to get current. And that's really a primary piece of
5 our working with customers and our disconnection
6 policy.

7 If it gets to the point that we do need to
8 have a customer subject to disconnection, they become
9 subject at the point they are 60 days passed due and
10 have arrears greater than \$100. And what we do though
11 is we proactively notify them during that period in
12 that billing that they are subject to disconnection at
13 this future date if they do not make arrangements or
14 pay the arrears.

15 We also, as it gets within -- up to around
16 ten days before that disconnection date, we will
17 notify the customer then again with what we call a ten
18 day notice that if you don't contact us to make
19 arrangements you will be subject to disconnection on
20 that date. We notify them primarily by -- have
21 notified them by mail but we are also have a program
22 where we are trying to do proactive telephone contacts
23 and do the ten day notice through a telephone call,
24 and then in that way if we are able to reach the
25 customer we have the ability to right there and then

1 try to seek and we work out a payment arrangement to
2 avoid disconnection.

3 The other part is, on customers that we're
4 securing security deposits, if we have a payment
5 agreement with that customer in terms of spreading out
6 the payment of that deposit if they default on that
7 deposit at that point they're also subject to
8 disconnection.

9 MS. MITCHELL: In response to item six of
10 the Commission's Data Request identifies hedging
11 strategies as one means of mitigating the impacts of
12 higher wholesale gas prices. It appears that ULH&P's
13 position is that hedging strategies can stabilize gas
14 cost. They should not be considered as a means as
15 providing lower -- customers with lower cost gas. Can
16 you provide a further explanation in support of this
17 position?

18 MR. RANDOLPH: Yes. Randy Randolph. In our
19 response what I was expressing was our position that
20 hedging in the case of fixing natural gas prices will
21 indeed stabilize your gas cost over time. And the
22 level of that stability is really dependent on how
23 much volume of gas you would purchase at a fixed price
24 looking forward relative to your overall demand. And
25 as we know that demand changes with the season and

1 from season to season, depending on the winter.

2 In the case of a fixed price, if you fixed a
3 price and in the event the market moved up, prices
4 moved up, obviously at the time of delivery you would
5 have a price that was below market at that time.
6 Conversely, if you bought a forward price and fixed it
7 and prices dropped you'd take delivery of price at a
8 higher -- higher than market.

9 So from our standpoint if you look at fixed
10 price hedging the risk and reward are symmetrical.
11 Your opportunities to gain, if you will, buy gas below
12 market, over time will equal your losses of the times
13 that you bought gas below market. And from out
14 standpoint it can provide stability, but it to us is
15 not a way in which we can guarantee lower gas prices.
16 And that's the view that we've taken with hedging.

17 That also you can apply that to buying
18 options. To the extent that you buy options for
19 future prices, you are paying a premium. Those
20 premiums ultimately, if the options aren't exercised,
21 have to be included in the overall gas cost. So that
22 would be, if the option wasn't exercised, in the event
23 prices didn't move up you'd have to add that on to the
24 market price. So you'd be paying above market. So,
25 that's -- again -- our view on utilizing hedging to

1 "lower" gas prices.

2 MS. MITCHELL: In the final paragraph to the
3 response it states that -- I'm quoting, "One of the
4 options for reducing the impact of price is a
5 structured hedging program for a portion of the gas
6 supply and budget levelized billing." Is that what
7 ULH&P is currently doing with the 15 percent of its
8 2000/2001 winter season gas supply cost hedged with
9 gas purchased during the summer of 2000?

10 MR. RANDOLPH: Not exactly. The 15 percent
11 that we purchased to go into storage is for
12 operational purposes. And if you would allow me, I
13 could use -- if I could use one of the visuals I used
14 earlier to show that. And I'll take us back to when
15 the prices on -- one of the prices on, graph prices of
16 our prices here. As we move along this curve this
17 year, starting in April/May time frame, we are
18 required by contract to start filling our storage on
19 the interstate pipelines. We have minimum or, if you
20 will, minimum levels and maximum levels we have to
21 meet.

22 So as you move along that curve we were
23 purchasing gas to fill storage. And it looked like a
24 very wise thing to do, because as we bought we thought
25 we were buying way out of the market. And as prices

1 kept moving up, of course, we kept filling. And
2 ultimately we find ourselves with an overall weighted
3 average cost into storage well below the current
4 market level.

5 What we indicated that we -- what I
6 indicated that we could look to with a structured
7 hedging strategy would be that to the extent -- and we
8 could use this as an example -- to the extent the
9 average price over the last four years has been, let's
10 just say \$2.50. Any time the price drops below \$2.50
11 we would fix ten percent of our portfolio price. And
12 if it drops ten percent more than the average, then we
13 fix ten percent more.

14 And to me that would be a structured hedging
15 program. You would move that direction regardless of
16 trying to guess the market. Because, again, guessing
17 the marking again you're taking on that risk that
18 prices will go, if you will, your way.

19 MS. MITCHELL: In item number six it also
20 states, "However, nothing should protect or shield the
21 customer's from market signals. Ultimately the
22 consumer of the natural gas will pay the cost based on
23 the market value. The consumer's need to see the true
24 market value of the commodity as expressed in the
25 price in a clear and timely basis." In light of this

1 response, is it accurate to say from a regulatory
2 perspective that ULH&P advocates a hands-off approach
3 to the increase in natural gas prices and to letting
4 the natural gas market dictate retail prices?

5 MR. RANDOLPH: Yes, ma'am, ULH&P would be an
6 advocate allowing the market to work, and also
7 allowing our customers to see the value in the market.

8 MS. MITCHELL: In August 29, 2000, reported
9 an energy venture analysis, I'm sorry, suggests that
10 in the event of severe winter wholesale prices could
11 reach \$12 in MCF, more than double the current prices.
12 Would ULH&P suggest letting the market dictate retail
13 prices if there were increases of this magnitude in
14 the wholesale prices above the levels presently being
15 experienced?

16 MR. RANDOLPH: Yes, ma'am, we would. And
17 what I did was I -- you know, we were contemplating
18 that, you know, looking back have we seen some huge
19 increases in prices at city gates. Because, of
20 course, we all lived and experienced the trauma of
21 last -- summer before last with regard to electric
22 prices. And, you know, we have seen earlier this year
23 in New York at the city gate Transco's zone six prices
24 quoted per Gas Daily and Inside F.E.R.C. as high as
25 \$18.

1 The Columbia Transmission pool price back in
2 February of '96, and that was another very difficult
3 time in the business. If you can think back four
4 February's ago we saw prices in Chicago in the \$30
5 range -- \$33 were the quotes that we found in *Gas*
6 *Daily*. And Columbia Gas as high as \$11 at the city
7 gates, basically.

8 So from the standpoint of allowing the
9 market to work, it's difficult but there are reasons
10 that it will work itself through. And ultimately
11 right now I think the response is to look for
12 industrials to move to alternate fuels, to look at
13 those that can switch if they economical viable
14 alternatives to do so, and for the producers to
15 explore and develop additional deliverability.

16 MS. MITCHELL: In response to item nine of
17 the Commission's Data Request discusses a universal
18 service fund as a possible means of providing
19 assistance to low-income customers. Many of
20 Kentucky's electric and gas utilities have generally
21 taken the position over a number of years that a
22 universal service fund could only be implemented if it
23 was authorized by the Kentucky legislature. Is the
24 ULH&P's position?

25 MR. GRIBLER: Mike Gribler. ULH&P believes

1 that having specific authority for a universal fund is
2 good public policy. We also believe that whether the
3 commission could establish a universal service fund in
4 the absence of specific legislation is an open
5 question.

6 MR. HOLMES: Is that the end of your answer?

7 MR. GRIBLER: That's the end of my answer.
8 Do you want my legal opinion?

9 MR. HUELSMANN: Mr. Holmes would like you to
10 comment further on that.

11 MR. GRIBLER: Well, let me explain. In
12 other jurisdictions in which Cinergy operates we have
13 had the equivalent -- what one might consider an
14 equivalent of a universal service fund imposed by the
15 commission under statutory authority that it felt was
16 sufficient to engage in that process. I think that
17 one can make a strong argument that the PSC has the
18 authority to implement a universal service fund.

19 However, as I said at the very beginning,
20 it's our view and opinion that it would be better
21 public policy if there were a statute which
22 specifically enacted the universal service fund for
23 Kentucky.

24 MS. MITCHELL: Does ULH&P envision that a
25 universal service fund complement the assistance

1 programs currently available or replace those
2 programs?

3 MR. GRIBLER: We would envision that the
4 universal service fund would complement the programs
5 currently available. And it may well be that some
6 existing programs would be rolled into a universal
7 service fund; however, we think there are programs
8 such as LiHEAP that exist on the federal level which
9 are going to continue, we hope. We lobby for their
10 continued existence on the federal side that those
11 programs would continue to exist and be available to
12 aid our customers. And that those are the kind of
13 programs of need would have to work on a complementary
14 basis with the universal service fund.

15 MS. MITCHELL: ULH&P offers a budget plan,
16 as you told us earlier for residential customers, and
17 you spoke that you have an annual plan and a quarterly
18 plan, I believe. At what period during the year are
19 customers able to enroll in these plans?

20 MR. ARNOLD: Our customers are able to
21 enroll in this plan at any time, any day. And, in
22 fact, our call center is open seven days a week, 24
23 hours a day to enroll customers. And we'll do that
24 any day.

25 MS. MITCHELL: Thank you. On the annual

1 plan that you spoke of earlier, is there an
2 established 12 month period over which customer's gas
3 costs are spread?

4 MR. ARNOLD: Yes, it's over a 12-month
5 period. It's a fixed amount over that 12-month period
6 with a settle up in the 12th month.

7 MS. MITCHELL: Okay, I'm sorry, did you say
8 what time period it runs? Does it start in August or
9 did you tell us?

10 MR. ARNOLD: No, the 12-month period starts
11 at the time the customer enrolls.

12 MS. MITCHELL: Oh, okay. Can you tell us
13 what percentage of ULH&P's customers have enrolled in
14 its budget plans?

15 MR. ARNOLD: Yes, 15,000 or 13 percent of
16 ULH&P's electric and gas customers are on budget
17 billing plans.

18 MS. MITCHELL: Did ULH&P step up its efforts
19 to promote its budget plan this year in light of the
20 increase?

21 MR. ARNOLD: Yes, we have and we are. As I
22 mentioned earlier, customers are going to receive
23 information on these plans through bill inserts,
24 messages on the bill, transit advertising and also, as
25 I talked about, the information line will be heavily

1 promoting this program. We think it's an excellent
2 program and we will be promoting it.

3 MS. MITCHELL: Thank you. Did -- ULH&P has
4 had three gas cost adjustment filings approved by the
5 commission since its natural gas pricing began
6 increasing early this past summer. What level of gas
7 cost is reflected in the budget payment amounts
8 established for ULH&P's customers for this current
9 budget year?

10 MR. ARNOLD: When we set up a customer on
11 budget billing we use the current one at that time.
12 So we're using the current one going forward.

13 MS. MITCHELL: I have no more questions.

14 MR. HUELSMANN: No more questions. Ms.
15 Cheuvront?

16 MS. CHEUVRONT: Thank you. Ann Louise
17 Cheuvront, Attorney General's Office. I'll follow up
18 -- I have one more question on the budget while we're
19 on that matter. On your annual, you don't do any kind
20 of quarterly checks or three months checks to see how
21 far off are adjustments to their bill?

22 MR. ARNOLD: We do. What we do is at the
23 six-month period we do a look at the six months back
24 and then we look six months forward and we use the
25 current GCA. And if the customer on the annual plan,

1 if the customer is more than 30 percent off we will
2 put a message on the bill recommending that they
3 change that amount and for them to call us if they
4 change it -- or for them to call us if they wish for
5 us to change it.

6 One of the things we are looking at is the
7 timing of that because of where the GCA is and their
8 customers. Normally that works fine from quarter to
9 quarter with the GCA, but because of where we are now
10 we are looking at do we need to do a special look, do
11 we need to do a special communication. And we will be
12 looking at that and making some form of assessment
13 that do we need to do a special notice to customers
14 and consider changing their amount.

15 MS. CHEUVRONT: Like my budget, which isn't
16 up here, gets checked every three months and if they
17 see I'm maybe going too close to -- they want to have
18 a zero balance at the end of my 12 months and they
19 will adjust it. You only do that if the customer
20 comes back and say, yes, adjust my bill? You don't
21 automatically do that?

22 MR. ARNOLD: That's right. We have two
23 plans based on what the customer wants. The annual
24 plan is a fixed plan because some customers want to
25 pay that same amount every month and settle up. And

1 they'll monitor that and if they're off we'll adjust
2 it.

3 We do have what's called a quarterly plan
4 which does more of what you mentioned which is
5 constantly is looking every quarter at that amount.
6 And there's not really a true up in that because it's
7 every three months, but based on a 12-month budget.

8 MS. CHEUVRONT: Do you all have late
9 charges?

10 MR. ARNOLD: Yes, we do.

11 MS. CHEUVRONT: How much is your late
12 charge?

13 MR. ARNOLD: I'm not sure I know that off
14 hand, but I will find out.

15 MS. CHEUVRONT: I'm probably going to put
16 you on the spot right now.

17 MR. ARNOLD: Okay.

18 MS. CHEUVRONT: And I don't even know if
19 it's possible, but is it something that with the gas
20 increasing like it is and the problems that people may
21 have now paying their bills that you -- the company
22 may consider waiving if they can't pay their bills on
23 time?

24 MR. ARNOLD: Waiving the late charge?

25 MS. CHEUVRONT: The late charge, um-hum.

1 MR. ARNOLD: That is something that we have
2 not discussed. We will -- we will consider that, but
3 I cannot make an answer today.

4 MS. CHEUVRONT: Thank you. In your answer
5 to their data request you talk about customer choice
6 being out there. You all don't have customer choice
7 in Kentucky, do you?

8 MR. GRIBLER: Mike Gribler. We do not have
9 a choice program wt ULH&P at this time.

10 MS. CHEUVRONT: Do you plan on --

11 MR. GRIBLER: We are contemplating that
12 plan, as I believe the Commission is aware. Our
13 affiliate, the Cincinnati Gas & Electric Company has a
14 customer choice program for gas customers, and we are
15 seriously considering bringing that plan forward and
16 asking the Commission for authority to introduce it in
17 ULH&P service territory.

18 MS. CHEUVRONT: I have one more question
19 that I don't know if you all can answer it because I
20 think you just collect money. Having these hearings
21 and unfortunately way too many people know what I do
22 for a living, I get a lot of -- I got a lot of
23 questions this weekend while I was encouraging people
24 to give to WinterCare or Winter Help and they asked me
25 did it really go to the people. Do you know -- does

1 100 percent get turned over or is administrative costs
2 taken out of that? Do you -- are you aware on how it
3 goes once you all receive it?

4 MR. ARNOLD: I'm fairly confident that from
5 a ULH&P standpoint 100 percent of that goes into
6 WinterCare. We do not -- we do not take any
7 administrative costs out of that. We match a dollar
8 for every two dollars given by employees, given by
9 customers up to a maximum of \$25,000. And I'm not
10 sure -- I don't believe -- those funds, the WinterCare
11 funds are administered by the Community Action
12 Commission.

13 MS. CHEUVRONT: And so you don't know how
14 they operate so you don't know what --

15 MR. ARNOLD: I'm looking for a little help
16 in the back, but I don't -- I can get that answer.

17 MS. CHEUVRONT: Do you know how much you
18 usually average a year on Winter Help?

19 MR. ARNOLD: I believe on WinterCare -- if
20 you give me just a minute I may have that.

21 MR. HUELSMANN: Mr. Arnold, if you can't
22 find it why don't we just supplement that with your
23 -- like supplemental data request PAG? How's that?

24 MS. CHEUVRONT: That's fine.

25 MR. ARNOLD: Thank you.

1 MR. HUELSMANN: It would be easier that way.

2 MS. CHEUVRONT: There might be somebody back
3 there that knows. They can tell you. I'm sure there
4 is.

5 One more question, please. In your answer
6 to number six, your very last paragraph, you make the
7 statement that you want to try to give out price
8 signals to avoid the mistakes that were made in the
9 '70's.

10 MR. ARNOLD: Yes.

11 MS. CHEUVRONT: Maybe it's a good thing I
12 don't know. I didn't pay bills in the '70s so I have
13 no idea what was going on in the '70s. What mistakes
14 are we trying to avoid -- that you would like to see
15 us try to avoid now?

16 MR. RANDOLPH: What I was referring to --
17 Randy Randolph -- in the late '70s, we came out of a
18 gas shortage in the early '70s. And what we did in
19 1976 was -- in 1978 we went forward and passed
20 legislation to enhance drilling activity. And we
21 offered incentives under the Natural Gas Policy Act to
22 drill deep gas and get deregulated prices and drill
23 for tight sands and get enhanced prices.

24 At the same time we passed some legislation,
25 the Fuel Use Act which curbed the use of natural gas

1 in boilers and for other applications. So what we had
2 were regulated prices that were driving the demand up
3 at that time. And at the time we were paying as much
4 as \$7 in the field for natural gas , it was being
5 masked by prices of old gas at 50 cents. So what
6 happened to us was once that came kind of to a head we
7 had a -- you know, we had to pay, if you will, for it
8 in the form of our reconciliation of producer
9 contracts and take our pay in the '80s.

10 MS. CHEUVRONT: That's all I have. Thank
11 you.

12 MR. HUELSMANN: The same thing with the late
13 charges, you'll supplement those like a data request?

14 MR. ARNOLD: Yeah, we sure will.

15 MR. HUELSMANN: I see other people who have
16 intervened but I don't believe anyone wants to ask
17 questions at this point of the interveners. If I'm
18 wrong on that raise your hand. Commissioner Gillis do
19 you have any questions?

20 MR. GILLIS: No questions.

21 MR. HOLMES: I have one on your chart, the
22 second chart that you have. Could you pull that one
23 back up?

24 MR. RANDOLPH: This one, the second one?

25 MR. HOLMES: Right. It looks like for the

1 2000 prices maybe July or August there's a decline,
2 then it shoots back up. What is the reason for that
3 decline, do you know?

4 MR. RANDOLPH: One of the things that the,
5 if you will, the hype early on in May was that we were
6 going to have a very, very active hurricane season and
7 tropical storm season. In fact, I think some
8 estimates were up to 11 hurricanes and something like
9 40 or 50 tropical storms.

10 At the same time what we ended up with was a
11 little bit milder weather, and the demand for gas for
12 electric generation for some parts of the country
13 dropped off and we saw both of those confluence of, if
14 you will, realizations in the market drop it off and
15 we saw a decline. And then we had that wave of
16 tropical storms coming late, which started driving
17 prices up back in September. And then all the hype of
18 maybe an early winter pushes it on up.

19 MR. HOLMES: Do you have any recommendations
20 on how to mitigate the future gas cost increase? I
21 noted that staff talked to you about hedging as one.
22 Do you have any suggestions or see any ways to
23 mitigate future increases?

24 MR. GRIBLER: Again, you know, I think the
25 market is going to dictate what the price is at the

1 wholesale level. From our end we can take a piece of
2 that and develop a structured fix price or hedging
3 strategy, which will stabilize the price. Again, I
4 don't think that there's any way for us to buy gas on
5 a consistent basis cheaper than the market. And there
6 are a lot of -- there are a lot of trading shops out
7 there that that's their whole sole purpose of
8 business.

9 We look at our business as providing
10 reliable and safe supplies to our consumers. And
11 providing, again, clear market signals. But I think,
12 you know, there are some ways we could stabilize it.
13 You know, and right now it's a very difficult time I
14 would say because when prices were in that lower range
15 of \$2 there wasn't a lot of down side for prices.
16 There wasn't a lot a movement. If it moved 50 cents
17 it went to a dollar and a half. Today it's at five
18 -- roughly over \$5. There's a lot of room to drop.

19 And the question is, can it maintain the
20 current level, can it go higher. Well, you know,
21 probably won't go higher and stay higher. Will it
22 drop? It's reasonable to think that we can see, you
23 know, prices drop comfortably back in the range of \$4
24 to \$4.50 or \$3.50. I would hate to go forward and buy
25 prices -- buy gas at these lofty prices for much term

1 and much length.

2 MR. HOLMES: In allowing the market to work
3 -- I think that was one of your answers -- do you see
4 the need for any additional increase in your other
5 programs that you have like WinterCare or customer
6 service type programs; I mean if we're going to let
7 the market, you know, dictate the prices do you see
8 the need in maybe doing something in your customer
9 service programs, assistance programs?

10 MR. ARNOLD: I think, you know, as we go
11 through the winter season we're going to continue to
12 try to be flexible and monitor what is really
13 happening, what's happening with the customers, their
14 ability to work through the flexible payment
15 agreement. I think a lot of it probably comes in how
16 flexible we are with the agreements to try help the
17 customers work through the payment plans.

18 But, you know, we will continue to think of
19 ways to help customers. But I really do feel our
20 existing programs do a lot to help the customer
21 budget, you know, budget their payments as well as
22 work with them when they're behind on how to manage
23 those payments. But we will continue to monitor --
24 monitor it continuously as we go through the year.

25 MR. HOLMES: Do you have a combined bill or

1 do you separate gas and electric or how does that --

2 MR. ARNOLD: They're a combined bill.

3 MR. HOLMES: Combined. So they have to make
4 the total payment of that one combined bill?

5 MR. ARNOLD: Generally, yes, but we also
6 have the ability to do a separation of service if they
7 get to the point of disconnection and we've exhausted
8 all the other things I've talked about. They can
9 choose to have one service disconnected and try to get
10 the other service current. And some will do that.

11 MR. HOLMES: Do you unbundled your billing
12 as to --

13 MR. ARNOLD: It's a last resort.

14 MR. HOLMES: -- electricity and gas?

15 MR. RANDOLPH: Yeah, the billing is detailed
16 separately on the bill and then it's combined on total
17 at the bottom and the due date is combined.

18 MR. HOLMES: That's all I have.

19 MR. HUELSMANN: You answered a question a
20 while ago about the choice program in Ohio and the
21 possibility of it coming to Kentucky with some type of
22 choice program. As you know, Columbia Gas in central
23 Kentucky has recently implemented a choice program
24 down there and there are some marketers, one in
25 particular I think, who is advertising that he can --

1 they can save ten percent on your fuel bill for the
2 next several months. And I'm getting several
3 questions. How is it that marketers can buy cheaper
4 than the big companies, Columbia or Union Light? And
5 I understand that they take more risk, they have the
6 ability to take more risk and therefore can create
7 more savings. But what's the short answer in the fact
8 that you cannot buy and sell cheaper than marketers?

9 MR. GRIBLER: Mike Gribler. If I may,
10 Commissioner, let me take a shot and Randy may want to
11 jump in and leap frog. I think -- as Randy has said
12 earlier, the wholesale market is very much transparent
13 with gas prices. Marketers are getting the same
14 signals we're getting. But as you indicated, your
15 question I think gives the answer. They have the
16 option, the opportunity to assume some risks that we
17 do not assume.

18 Our supply is firm. Our capacity is firm.
19 We have our statutory obligation to provide reliable
20 service for our customers. Marketers may choose to
21 use a secondary capacity market, which may be less
22 expensive than the firm transmission capacity that we
23 pay in order to create those price differences.

24 It may also be that the marketer is trying
25 to develop the market, which is what competition is

1 all about. And they may be prepared to offer a lower
2 price in order to pick up a market share.

3 MR. RANDOLPH: Randy Randolph. I guess, in
4 short, they can. And to explain that I think your --
5 if you look at our GCA, our GCA is not a true
6 reflection of market price. It's as close as we can
7 get because we have, if you will, to project purchases
8 -- or sales. And we have to apply those, any refunds
9 during overs or underages (sic) over the period.

10 I think our experience, what we've seen in
11 Ohio is that recently is that those offers that came
12 out on the table initially to save five and ten
13 percent off the GCR there are no longer on the table.
14 And we've seen let's say, a smaller group and a
15 smaller set of options available to customers under
16 choice, because they're finding it's very difficult to
17 provide the same level of service that we provide any
18 cheaper than we provide it.

19 And, again, that's -- there are a number of
20 ways you can use transportation. We buy firm capacity
21 on the pipes. There's a secondary market, we buy firm
22 storage, those types of things. So, again, I guess in
23 short, I don't think they can, but there are some
24 other things that play into the equation.

25 MR. HUESLMANN: Would you give me an

1 indication or us an indication of where you're at with
2 respect to injecting the wells this year versus last
3 year and how is that coming?

4 MR. RANDOLPH: As far the question -- Randy
5 Randolph -- we are on -- we are on point, if you will.
6 We are where we need to be operationally with our
7 storage. We are, I think, exactly where we were this
8 time last year with storage.

9 MR. HUELSMANN: Some of us remember the
10 winter of 1977-1978. Can Union Light, Heat and Power
11 heat all the homes that need to be heated if we have a
12 winter like that this year?

13 MR. RANDLOPH: Given our design criteria we
14 should be able to meet those needs from our customers,
15 yes.

16 MR. HUELSMANN: So I take that as a yes?

17 MR. RANDOLPH: Yes, sir, I think we can.

18 MR. HUELSMANN: That's all I have at this
19 point or we have. Ms. Mitchell, do you have any more
20 questions?

21 MS. MITCHELL: I have no more questions.

22 MR. HUELSMANN: Ms. Cheuvront, do you have
23 any more questions?

24 MS. CHEUVRONT: No, I don't. Thank you.

25 MR. HUELSMANN: We're now going to go to

1 questions that people have written down that I should
2 ask. And I see none of those questions. I don't
3 believe anybody has done that. And we'll go on to
4 public comments. And we had Mr. Randall Wilson was
5 here, but I believe he's left.

6 And I also -- one of the persons that wants
7 to talk is Carl Melcher. I think we'll reserve Carl,
8 if you don't mind, until the third one on here. I
9 think it's more appropriate for them at that point, if
10 you will. Because I don't really think you're public.
11 I think you represent somebody.

12 So we'll now go to public comments. And the
13 first one on our agenda is the Cabinet for Families
14 and Children as well as the Kentucky Association of
15 Community Action. My understanding Karen Doyle is
16 going to be up here as well as Kipp Bowmar.

17 MS. DOYLE: Hi, I'm Karen Doyle with the
18 Cabinet for Families and Children. I'm representing
19 Viola Miller, Secretary Miller today. We have some
20 comments and, of course, we're very concerned with the
21 people in the Commonwealth. They have to make a
22 decision to buy fuel or buy food? Buy fuel or buy
23 medicine? That will be the choice many of our low-
24 income families, senior citizens, and individuals with
25 disability will have to face and make this winter.

1 This is not a choice that we should be willing to
2 accept.

3 The Cabinet for Families and Children
4 administers the LiHEAP, which is the Low-Income Home
5 Energy Assistance Program, and contracts with the
6 Kentucky Association for Community Action to operate
7 this program.

8 Secretary Miller is deeply concerned about
9 the rising cost of fuel, especially the cost of
10 natural gas for the low-income citizens of the
11 Commonwealth who depend on LiHEAP to help them pay a
12 portion of their heating bills during the winter.
13 There are increasing indications that the price of
14 home energy, natural gas, propane, fuel oil, kerosene,
15 wood and coal is on the rise.

16 With the gasoline prices remaining high the
17 cost to deliver wood and coal will rise maybe ten
18 percent. But we expect to see an increase. With
19 natural gas prices predicted to increase this winter
20 by as much as 50 percent from last winter, the lives
21 of the elderly, the low-income, individuals with
22 disabilities, and families with children will be
23 dramatically impacted. These vulnerable citizens will
24 be forced to make a choice, that is, once again, buy
25 fuel or buy food, buy fuel or buy medicine.

1 If the winter is extremely severe or there
2 are extended periods of very cold weather the problem
3 will be even more critical and could reach a dangerous
4 level. Studies show the low-income households spend
5 from 14 to 18 percent of the total household income on
6 heating costs.

7 For example, a family of four with a gross
8 income of \$1,200 a month, would spend from \$168 to
9 \$216 monthly on heating costs. Conversely, other
10 households spend 3.5 to 6.7 percent of the household
11 incomes on heating costs. Studies show that the
12 elderly are likely to pay their heating bills at the
13 expense of food and medicine.

14 Nationally, LiHEAP is insufficient to meet
15 the needs or demands, especially in the face of
16 increasing heating costs. Under LiHEAP, only those
17 who have incomes at or below 110 percent of poverty
18 are eligible for help. Those who are above 110
19 percent of poverty level do not qualify for LiHEAP.

20 For those who are eligible the LIHEAP
21 benefit is small compared to the actual cost of
22 heating their incomes. In subsidy last year the
23 average one time benefit, taking into account all fuel
24 types, was \$92. Last year 94,931 Kentucky households
25 were assisted. For natural gas the average benefit

1 was even lower, \$82.

2 In the case of the family of four, let's
3 assume they heat with natural gas, their heating costs
4 for the winter months would cost from \$840 to \$1,080.
5 In crisis, the maximum benefit for natural gas was
6 \$100 and will be \$100 again this year.

7 To what extent will these benefits assist a
8 family if natural gas prices are increased by 50
9 percent? Last year 48,376 households were served.
10 Individuals, especially elderly, are becoming worried,
11 even frightened about the prospect of higher heating
12 bills this winter as a result of recent news reports.
13 One senior citizen stated, I am on a fixed income and
14 cannot save for big increases in my gas bill. My
15 medications cost almost \$300 a month. What am I going
16 to do?

17 Kentucky is faced with significant funding
18 issues. Only those with annual incomes at or below
19 110 percent of poverty receive help with LiHEAP. The
20 LiHEAP benefits amounts will only cover only a small
21 portion of the winter heating costs.

22 Many may have heard that President Clinton
23 released energy funds and we are extremely grateful
24 these funds have been released so early this year.
25 However, these funds are not new dollars but are an

1 advance release of emergency funds that are
2 appropriated annually for the President to release in
3 times of weather related or energy related
4 emergencies. Other than WinterCare and Winter Help
5 there are no other funds available.

6 How is the state addressing the problem? By
7 attending hearings such as this and speaking out, by
8 facilitating two additional sessions which will
9 address not only the natural gas issues but the
10 increased cost in all fuels, by asking community
11 resources to become more involved and lend a helping
12 hand with this situation, by supporting increased
13 federal funding for LiHEAP and weatherization
14 programs, by encouraging utilities to maintain humane
15 cut-off policies, by encouraging citizens to make
16 contributions on their monthly utility bills to
17 WinterCare and Winter Help which will assist low-
18 income households. However, Winter Help is in
19 Jefferson County only.

20 Our governor joined with other governors and
21 asked the President to release the LiHEAP emergency
22 funds before the winter begin rather than during the
23 later part of the winter. On Saturday, September 23rd,
24 the President released 400 million dollars in
25 emergency funds. Kentucky's share of the emergency

1 fund is 4.7 million. At this critical time it is
2 imperative to remember that states and communities
3 action agencies cannot do it all. There must be a
4 coordinated effort state-wide.

5 Therefore, the cabinet is asking all
6 community resources to help, from elected officials,
7 to church groups, to private sectors, to civic
8 organizations, to utilities, to private citizens, to
9 anyone or any group in the community who can help keep
10 a citizen from freezing this winter; that is providing
11 resource such as blankets, emergency shelter, space
12 heaters, or assisting in paying a person's bill if
13 LiHEAP is insufficient to pay the bill.

14 We are aware that community resources
15 already help, but we would like for them to dig deeper
16 and help more.

17 On behalf of Secretary Miller I want to
18 thank the Public Service Commission for providing us
19 this time to present the issues facing Kentucky's most
20 vulnerable citizens.

21 MR. HUELSMANN: Thank you, Ms. Doyle. We're
22 going to need to change the tape real quick. So let's
23 take a 30 second break.

24 (OFF THE RECORD)

25 MR. HUELSMANN: Okay, we're back on the

1 record. Mr. Bowmar?

2 MR. BOWMAR: My name is Kip Bowmar and I'm
3 the executive director of the Kentucky Association for
4 Community Action. We do operate the low-income home
5 energy assistance program or LiHEAP, as it's called,
6 with a grant from the Cabinet. I also want to thank
7 the Public Service Commission for having these
8 hearings around the state and also for participating
9 in the two forums that we're coordinating with the
10 Cabinet for Families and Children in addition to the
11 five hearings around the state. And we had the first
12 one of those hearing last night in Hopkinsville. And
13 we heard from a lot of low-income consumers. Calls
14 were really picking up on the LiHEAP hotline. We're
15 hearing from a lot of consumers who are very concerned
16 about the coming price increases. And we're glad to
17 hear that, you know, dollars are available through
18 check off funds like WinterCare. I think there was a
19 question earlier about how many dollars come into
20 Union Light, Heat and Power's WinterCare
21 contributions. I believe last year it was in the
22 neighborhood of \$30,000. I think state-wide
23 WinterCare, which is the largest fuel fund in the
24 state, generated \$160,000 as compared to a LiHEAP
25 program of about 12 million dollars. So even with the

1 other resources that are out there they're very small
2 in comparison to LiHEAP. And LiHEAP alone is not
3 nearly enough to address the need.

4 Even in our best years of LiHEAP we estimate
5 that we serve approximately 60 to 65 percent of the
6 eligible households. That means there's approximately
7 another 120,000 households at or below 110 percent of
8 poverty that we're not able to serve, approximately,
9 because of a lack of funds. And there are thousands
10 and tens of thousands of households that are between
11 110 percent and 200 percent of poverty, or as we like
12 to call them the working poor, who are ineligible to
13 receive assistance under LiHEAP simply because there
14 aren't enough dollars.

15 So what can we as a state do about it? One
16 of the things that the Kentucky Association for
17 Community action believes can be done is the creation
18 of a universal service fund whereby either a 50 cent
19 per dollar a month line charge on residential energy
20 bills it could create a sizeable fund to fund energy
21 affordability to low-income households through things
22 like payment assistance programs, percentage of income
23 plans, weatherization, and other types of measures.
24 And we believe this could go a long way towards
25 addressing energy affordability for low-income

1 households in Kentucky. And we urge the Public
2 Service Commission to consider that as well as other
3 utilities.

4 We appreciate the opportunity to be here and
5 would be happy to answer any questions that anybody
6 has.

7 MR. HUELSMANN: Thank you Mr. Bowmar. I
8 don't think we have any questions for you. Mr.
9 Melcher, I think now is an appropriate time for you to
10 make your comments. And just so that everybody knows,
11 I've known Mr. Melcher a long time and we are both
12 friends as well as colleagues. And he works with the
13 Northern Kentucky Legal Aid Society.

14 MR. MELCHER: Thank you, Mr. Chairman. The
15 last time I appeared in front of you was 25 years ago
16 in law school. So it made me nervous then and this
17 make me nervous also.

18 MR. HUELSMANN: You need to state your name
19 for the record.

20 MR. MELCHER: Carl Melcher, M-E-L-C-H-E-R.
21 I work at Northern Kentucky Legal Aid. I've actually
22 worked there since graduating from law school for
23 about 24 years. And as you are aware, we represent
24 people that are at or below 125 percent of poverty.
25 And the types of cases that we take are all civil.

1 And we address problems in family and housing areas
2 and public benefits and also in what we call the
3 consumer area, which is mainly utility bills.

4 When we have a customer or client come in
5 with a utility problem we try to see if there's any
6 assistance available. We try to see if the company
7 has followed the PSC regs and its own customer plans.
8 And there very seldom is enough public money to help
9 the people. In almost all instances the PSC regs have
10 been complied with.

11 As a matter of fact, the company is very
12 lenient on their cut-offs, and frequently though there
13 isn't anything that we can do other than filing a
14 Chapter 7 bankruptcy for these people.

15 We don't normally file bankruptcies for our
16 clients because if you're at 125 percent of poverty or
17 lower your normally judgment proof from most
18 creditors. But the gas and electric company, of
19 course, can cut you off. And so we do file
20 bankruptcies for a number of clients.

21 Currently in the office we have 135 open
22 bankruptcy cases. Those are 135 families that had
23 their gas and electric disconnected. I'm sorry I
24 don't know the number per year that we file. It takes
25 maybe four to six months to open and close a

1 bankruptcy case. I would estimate that we probably
2 file about 200 bankruptcies a year. And in almost all
3 of those cases the reason that we file is for gas and
4 electric bills.

5 Down through the years we've also intervened
6 in a number of rate cases to try to impact the problem
7 that our clients see. We haven't intervened in a
8 number of years because I don't think the company has
9 actually filed a rate case in ten years, maybe even
10 longer. But the last time that we were in a rate case
11 the statistics were that the company has about 100,000
12 residential customers and in an average year they
13 disconnect about 2,500 households. So it's a pretty
14 big problem.

15 I think in the last year or so or couple of
16 years the character that -- the characteristics of our
17 clients has changed a little bit. I think more of our
18 clients are working now, but I don't think that
19 they're any wealthier. When I first started 24 years
20 ago at Legal Aid most of our clients were receiving
21 welfare and food stamps and Medicaid. Now there are
22 very few clients that actually receive welfare. Most
23 of the children receive some type of K-chip assistance
24 with their medical bills and frequently the family
25 gets food stamps. But most of our families now are

1 working, but I don't think that they're necessarily
2 any better off. They're certainly not above 125 of
3 poverty.

4 And it's a huge problem. And I'd like you
5 to consider that in this case.

6 MR. HUELSMANN: Thank you, Mr. Melcher.

7 MR. MELCHER: Thank you.

8 MR. HUELSMANN: The next person to speak is
9 from the Cabinet for Natural Resources and
10 Environmental Protection Mr. John Davies, who is the
11 director of the Division of Energy.

12 MR. DAVIES: Thank you. I'm John Davies, D-
13 A-V-I-E-S and as mentioned I'm from the Cabinet of
14 Natural Resources and Environmental Protection.

15 And first I'd like to thank the Public
16 Service Commission for allowing us to comment this
17 evening. It's been a very full evening and because of
18 that I'll make my remarks brief and hopefully helpful.

19 Our purpose this evening is twofold, first
20 to explain who we are in our role of energy within the
21 Commonwealth; and secondly, which is perhaps more
22 important, to highlight what families and businesses
23 can do to reduce their energy bill through simply an
24 effective energy conservation practices.

25 The Division of Energy is a state agency

1 whose mission is to promote healthier and more
2 prosperous and sustainable future through the wise use
3 of energy. The division's history extends more than
4 25 years, originating in the early energy crisis of
5 the 1970's when national energy security and energy
6 conservation issues gained public attention. Since
7 its inception the Division of Energy through the
8 partnership with the United States Department of
9 Energy has helped Kentucky Schools and hospitals save
10 an average of 25 percent on energy costs more than
11 1,100 buildings. We've developed an energy efficiency
12 program for state government buildings, promoted the
13 use of alternative fuel such as compressed natural gas
14 and ethanol, and we prepared for and responded to
15 energy emergencies to lessen their impact.

16 These are just a few examples of our
17 programs. While our mission remains the same, our
18 focus changes from time to time to respond to energy
19 issues and challenges.

20 Today, despite greater efficiency gains we
21 have made over the years, our state and nation still
22 confront serious energy issues that affect our
23 economy, health, and environment. The approaching
24 winter season presents us with such a situation.

25 As a non-regulatory state agency, the

1 division works with others on a voluntary cooperative
2 basis to ensure that energy emergency issues are
3 resolved. We promote contingency planning on the part
4 of both individuals and organizations to anticipate
5 and reduce the impact of energy problems. Most
6 everyone recalls the efforts to prepare for the new
7 millennium. The Division of Energy was one of the key
8 agencies working with the inter-agency task force to
9 plan for energy problems that could have resulted from
10 Y2K.

11 We have also partnered with the Division of
12 Emergency Management, energy suppliers, other states,
13 and the federal government to resolve energy supply
14 and distribution problems caused by severe winter
15 conditions. We did this as recently as of January
16 2000. I see our current situation requiring a similar
17 effort to prepare for problems that may arise from
18 higher energy prices and tighter supplies.

19 The Division in conjunction with five other
20 state agencies has formed a winter fuels working group
21 to determine how the state government can best prepare
22 for potential energy challenges ahead. The other
23 agencies are the Public Service Commission, the
24 Kentucky Division of Emergency Management, the Office
25 of the Attorney General, the Cabinet for Families and

1 Children, and the Cabinet for Economic Development,
2 all under the purview of the governor's office.

3 Our winter fuels working group will address
4 such issues as attaining reliable information under
5 energy supply, demand, and prices through the
6 Commonwealth, reviewing and updating Kentucky's
7 existing emergency operation plans as they relate to
8 energy supply, coordinating the appropriate response
9 among state agencies and working with other states,
10 the federal government and non-governmental
11 organizations to implement solutions.

12 This hearing focuses specifically on natural
13 gas, but all of us who have bought gasoline, read the
14 newspaper, or heard a news broadcast in this past
15 several weeks are well aware that the cost of oil is
16 near record highs. Prices for petroleum products
17 whether it's gasoline, heating oil, diesel fuel or
18 propane are determined on the world market. And this
19 market has risen steeply.

20 In less than two years a barrel of oil sold
21 for about \$10. In recent weeks that same barrel has
22 brought nearly four times that much. Tight supply and
23 higher natural gas costs may lead to even higher
24 prices for our other heating sources such as heating
25 oil and propane. Together these three products,

1 heating oil, natural gas, and propane, heat 59 percent
2 of Kentucky homes.

3 While heating costs may be up 20 to 40
4 percent this winter, we can save an equal amount by
5 adopting energy saving practices. And let me share
6 some of these common sense tips with you. And I must
7 admit that these are not glamorous, but they do work
8 and have been proven effective.

9 Just as a side note, we've brought
10 publications that are outside this meeting room and
11 they're on the table. And these include the energy
12 saving-tips I'll address as well as other advice.

13 First, keep your furnace tuned and in top
14 condition. Proper maintenance of your furnace can
15 save six to ten percent on your heating bill.

16 Weatherize your home to prevent heat loss.
17 Apply caulk and weather stripping around your windows,
18 outside doors, or where plumbing and electrical wiring
19 penetrate exterior walls, floors, or ceilings.

20 Control temperature in your home. Keep the
21 thermostat on the lowest setting which you are
22 comfortable. Each degree you lower your thermostat
23 you can save two to three percent. Set your
24 thermostat back from 72 degrees to 64 degrees for
25 eight hours, those hours when you're away from home

1 during the day. You can save five to ten percent on
2 your heating bill.

3 Add insulation in your attic. Most Kentucky
4 homes should have at least an R30 insulation level in
5 the attic. If you increase your R19 insulation to R30
6 you can save another 15 percent on your heating cost.

7 Water heating typically accounts for 14
8 percent of your utility bill. Repair leaky faucets,
9 insulate the water heater tank and hot water pipes and
10 set your hot water thermostat to 120 degrees and
11 install low flow faucets and showerheads.

12 On sunny days let the sun help. Open
13 curtains and shades to allow sunlight to enter your
14 home and close them in the evenings to retain heat.

15 Use kitchen, bath, and other ventilating
16 fans wisely. These fans can pull out a house full of
17 warm air if they're not turned off.

18 When fireplaces are not in use keep the flue
19 damper tightly closed. Fireplaces are not efficient
20 sources of heat. Although they warm the surrounding
21 area, they also draw much of the heat in your house up
22 the chimney. Just as a reminder, if you use your
23 fireplace have it inspected annually.

24 Adopting these measures can lower your cost
25 of heating your home while increasing your comfort

1 during the winter. Other measures you can take to
2 reduce your energy costs include buying high
3 efficiency energy star labeled products when replacing
4 appliances and equipment and changing your
5 incandescent light bulbs to compact florescent light
6 bulbs.

7 Many of these energy saving tips such as
8 adjusting thermostats, reducing hot water
9 temperatures, sealing duct work, and performing
10 routine maintenance on furnace equipment apply to
11 businesses and industry as well. Asking employees to
12 help out by turning off lights in unoccupied areas,
13 keeping exterior doors closed as much as possible, and
14 turning off machines and equipment when not needed
15 will generate significant energy savings.

16 If you are a commercial or an industrial
17 natural gas customer on an interruptible contract, be
18 sure your standby equipment is working properly and
19 you have adequate supplies of standby fuel on hand or
20 under contract for delivery.

21 Remember in the unlikely event that we do
22 experience actual shortage of natural gas, other
23 interruptible customers are going to need the same
24 fuels that you need. Also be sure that you stay in
25 close contact with your standby fuel supplier.

1 As I said, energy conservation is not
2 glamorous but it does work. Those in our communities
3 who can at least afford higher energy costs might be
4 faced with difficult decisions. We recognize the
5 choices many low-income households will face. Pay for
6 energy or pay for food or medication or life's other
7 necessities.

8 There are no easy answers, especially in the
9 short run. And all of us together need to start
10 taking those actions which will make us less dependant
11 on foreign oil and more energy self sufficient.
12 Energy efficiency and conservation are steps in that
13 direction.

14 Our toll free number and web address are
15 also provided in the materials on the back table. The
16 Internet is a tremendous resource for energy
17 conservation and ideas. And I encourage you all to
18 visit our web site to link to these other sites. Also
19 many energy suppliers to include Cinergy also have
20 energy saving tips and conservation ideas on their
21 websites.

22 This concludes my comments for this evening.
23 Thank you for your time.

24 MR. HUELSMANN: Thank you, Mr. Davies. Next
25 person is director of Consumer Services from the

1 Public Service Commission, Jenny Smith.

2 MS. SMITH: Good evening, I'm Jenny Smith
3 and I'm the Director of Consumer Services. I'm going
4 to take a few minutes to share with you some
5 information regarding the consumer service's division,
6 an explanation of our consumer complaint process, and
7 finally some information on how you can contact the
8 PSC.

9 The Consumer Services Division is composed
10 of five complaint investigators, including a division
11 secretary, one of which is myself. The Consumer
12 Services Division receives approximately 30,000 calls
13 per year. And to date we have logged 3,300 informal
14 complaints. In the last four months we have saved the
15 consumers \$85,000. And that's something they all like
16 to hear.

17 The division has seen an increase in the
18 number of informal complaints filed by customers each
19 year. One reason for this is the commission's
20 consumer education program that has resulted in
21 television and radio ads giving out the toll free
22 number. The staff is responsible for providing
23 informal complaint resolution services for the state's
24 regulated utility customers.

25 We do not regulate municipal owned

1 utilities, TVA, cable TV, sanitation districts or
2 bottled gas. Complaints are resolved in accordance
3 with the PSC's rules and regulations, the utility's
4 filed tariff and the Kentucky State Statutes.

5 Although we can't satisfy every customer,
6 most are left with a better understanding of the
7 utility's response and the commission's authority.

8 Now that you know who we are and how we can
9 help you as a utility consumer, let me share some
10 information with you that will help you contact us.
11 On the back table there is a sheet that looks like
12 this and it has all the ways that you can contact us.
13 The easiest way, as the chairman said to remember it
14 is 1-800-PSC-INFO. I had never heard that. Nobody
15 had ever told me. So now I know. And then we have
16 the mailing address, by phone, and we do welcome
17 personal visits. We're located at 211 Sower
18 Boulevard, which is right off of the east/west
19 connector 676 and we're located behind the
20 Commonwealth Credit Union.

21 Thank you for giving me a few minutes to
22 talk to you about our agency. And now I'll return the
23 program back to the Chairman.

24 MR. HUELSMANN: Thank you, Ms. Smith. The
25 next person that's going to make public comments is

1 from Daugherty Resources Mr. Mike Wallen, and I
2 believe this is going to be Power Point and we need to
3 move out there.

4 MR. WALLEN: I'm Mike Wallen. I'm vice
5 president with Daugherty Resources. We're located in
6 Lexington, Kentucky. We have a subsidiary, Daugherty
7 Petroleum, who is a natural gas producer in
8 southeastern Kentucky.

9 I'd like to start this presentation by
10 showing you a quote from Secretary of Energy Bill
11 Richardson, to the National Petroleum Council in 1999
12 when he said, "For a secure energy future, government
13 and private sector decision makers need to be
14 confident that the industry has the capability to meet
15 the significant increases in natural gas demand
16 forecasted for the twenty-first century."

17 In our opinion, there is no energy crisis.
18 The long-term supply of natural gas they're not in
19 question. And we need to remember while crude oil
20 supply is a global issue, natural gas is an North
21 American one. Eighty-seven of the natural gas
22 consumed in the United States is produced here, the
23 remaining 13 percent being produced in Canada and
24 Mexico.

25 We're under price shock. The price of

1 natural gas is higher because of market conditions.
2 The law of supply and demand is working and price is
3 the symptom here, it's not the problem.

4 The National Petroleum Council at the end of
5 1998 projected what they thought natural gas prices
6 would be for the forecasted period through 2010. As
7 you can see, they projected natural gas prices to be
8 in this year at about three dollars a thousand. We
9 can see how wrong they were.

10 If you relate back natural gas prices in
11 1999 dollars -- and this is a slide from the
12 Department of Energy Information Agency -- if we're
13 paying \$8.80 cents now the domestic consumer equated
14 to 1999 dollars were paying the same price that we're
15 paying at 84 and 85. Those prices equated back for
16 residential customers with '99 prices residential
17 customers were paying 30 percent less, commercial
18 customers paying 37 percent less, and industrial and
19 electrical generation were paying 48 percent less.

20 Market conditions at work. Low levels of
21 drilling activity during the past three years -- those
22 are four points and we'll go through those
23 individually here. With the low levels of drilling
24 activity as you can see this is the number of wells
25 drilled per year in the lower 48 states. As you can

1 see from 1991 through 1998 and 1999 actually that
2 level decreased. There wasn't any significant
3 increase in the number of wells drilled in this
4 country.

5 U.S. natural gas production. If you look at
6 the annual production adds versus declines in billion
7 cubic feet a day, you can see that in 1999 we're going
8 to be using 2.2 BCF a day, more than we're going to be
9 adding back in.

10 The third column in each one of those is the
11 number of drilling rigs that have active over that
12 period. As you can see, drilling activity in the '90s
13 was substantially off what it was in the '80s -- '70s
14 and '80s. We're seeing rig activity pick back up now
15 with the prices rising where they are.

16 Increase in demand for natural gas. This is
17 another Natural Petroleum Counsel study where they're
18 projecting the amount of gas that will be needed in
19 the United States in trillion cubic feet. As you can
20 see their projected usage of nature gas into the next
21 10 or 15 years will grow substantially approaching 30
22 trillion feet by the year 2010. Natural gas
23 consumption, here it is graphed since 1986 through
24 estimated 2000, and we're already at like 22 trillion
25 cubic feet a year. Natural gas demand by sector.

1 Again, this a DOE slide that shows that the biggest
2 increase in natural gas usage in this country and it's
3 already started is with electricity generation. The
4 other columns there, industrial, residential,
5 commercial, are growing at fairly normal rates. But
6 the electrical generation side of natural gas usage is
7 what's increasing so dramatically. That growth from
8 1998 through 2010 is focused on 47 percent of
9 electrical generation. That will be the increase of
10 natural gas usage in electrical generation in the time
11 period.

12 That National Petroleum Council who prepared
13 those last projections, this is the criteria they used
14 for those, that the GDP will grow at two and a half
15 percent per year, 140 gigawatts of new power will come
16 on-line by 2015, 70 percent of the new gas fuel power
17 projects could switch fuels, no new nuclear facilities
18 will be built, 30 gigawatts of nuclear capability for
19 generating electricity is up for re-licensing.

20 They're projecting that 50 percent of those will have
21 their license extended and 50 percent of those plants
22 will be retired. And they're projecting coal usage up
23 about 11 percent.

24 The third condition here, reduce short-term
25 deliverability. Here's the U.S. dry gas production

1 over the past few years. As you can see production
2 levels since 1994 have been relatively stable.

3 Again, domestic gas production has been flat
4 since '94. Domestic production will slightly decline
5 in the year 2000. Canadian production, which a lot of
6 people are counting on to grow more rapidly, is
7 growing a lot slower than expected. And we're now
8 focusing on demand.

9 And increase in price, that's the fourth
10 condition. Here's a profile that a lot of people
11 don't understand. When most people in this country
12 think about energy they think about big oil companies
13 being producers, but in fact 73 percent of the natural
14 gas in the United States is produced by independents
15 with only 27 percent being produced by the major
16 companies.

17 An independent producer generally operates
18 solely in the exploration and production segment of the
19 industry. And typically they do not refine or process
20 natural gas and products or sell their production on a
21 retail basis.

22 Independent producers range in size from
23 large public companies such as Anadarko and Devon to
24 small privately held companies like most of the more
25 than 200 companies that make up the Kentucky Oil and

1 Gas Association.

2 In the State of Kentucky, just for a little
3 reference, the State of Kentucky produces the column
4 on the right, about 78 BCF of natural gas in 1999.
5 The bar chart shows you the amount of wells drilled in
6 the State of Kentucky since 1990. Again, referring
7 back to the lower number of rigs running, the lower
8 number of wells, as you can see, the drilling has been
9 down over the past few years.

10 Natural gas consumption in the State of
11 Kentucky -- now we took these numbers through August
12 of 1999 -- or I'm sorry, August of 2000 -- through
13 August of 2000 the State of Kentucky has already
14 consumed as much gas as it had in the whole year of
15 1999. So consumption in the State of Kentucky is way
16 up. I don't know the answer to that, but it is.

17 Production value in the state, Kentucky will
18 again produce out of that 78 BCF in 1999 a generated
19 value of about 155 million. For 2000, with the gas
20 prices where they are, that figure might approach 300
21 million.

22 Components of a healthy oil and gas
23 industry, and this is another factor on a national
24 level that the oil and gas industry has faced problems
25 with in the past few years we're losing skilled

1 workers because of the downturns in the industry. The
2 industry hadn't been able to get adequate financial
3 returns; that's why they haven't been drilling so
4 much. They've been idle so long that we're getting in
5 a situation where drilling rigs and service equipment
6 is not available on a national level, not so much on a
7 Kentucky one. Access to public lands has been
8 throttled back, but there hadn't been any governmental
9 restraints and we don't think there need to be any if
10 we're going to be able to develop the natural gas that
11 this county is going to need.

12 So our bottom line is, we don't want to jump
13 into a situation like we did in the '70s and '80s
14 where tight supplies get into a price surge. If
15 government inserts price caps, we go into the spiral
16 where there's less supply, more demand, regulated
17 shortage that end up in curtailment. We request the
18 Public Service Commission to look at those and not get
19 into a situation where anyone thinks that price
20 controls are needed.

21 Again, that's the end of the presentation,
22 but I thank the Commission for allowing me to speak
23 and present that.

24 MR. HUELSMANN: Thank you, Mr. Wallen.
25 There's a lot of people in the audience and I guess

1 the last opportunity for someone to make public
2 comments at this point. Okay, with that we go to
3 closing statements. If you have a closing statement
4 we'd appreciate it be as brief as you can. Ms.
5 Cheuvront, you first?

6 MS. CHEUVRONT: Thank you. I think at our
7 hearing last week I said that I was going to day
8 ditto, but I guess I said a little bit more than that.

9 We appreciate the opportunity to be here and
10 ask questions of the utility to find out where they
11 stand on different issues. We recognize that this is
12 a national problem not just in Kentucky, and we would
13 urge this Commission not to add any increase to these
14 prices that are already going up. Thank you.

15 MR. HUELSMANN: Ms. Mitchell?

16 MS. MITHCELL: No, I have nothing further.

17 MR. HUELSMANN: Mr. Gribler?

18 MR. GRIBLER: Chairman Huelsmann, very
19 briefly, let me express on behalf of the Union Light,
20 Heat and Power Company our appreciation for the
21 opportunity to address the commission tonight. I'd
22 like to thank the public participants for their input.
23 I'm particularly pleased that the Commission is in
24 Covington, Kentucky where our consumers have the
25 opportunity to sit in and understand what the hearing

1 process is and what the Commission is doing in this
2 matter.

3 And we would also agree with Ms. Cheuvront
4 that we would urge the Commission not to do anything
5 that would add to the price that is being paid by our
6 consumers. And we trust that will be the case.

7 We thank you very much for being here.

8 MR. HUELSMANN: Thank you, Mr. Gribler. And
9 I want to publicly thank you and your staff for
10 appearing here and doing an excellent job to educate
11 us.

12 As chairman, this concludes at least this
13 part of the hearing. And we will have two more
14 hearings and hopefully we'll have an order out
15 sometime in November or December. And I think I get
16 the prerogative to make the last statement. As I say
17 to a bunch of people that working together we, the PSC
18 and the public and the utilities, can make Kentucky a
19 better place in which to live. Thank you all for
20 coming.